

**COMMONWEALTH OF
KENTUCKY**

**OFFICE OF FINANCIAL
INSTITUTIONS**

DIVISION OF SECURITIES

800-223-2579



**AFFINITY
FRAUD**

Affinity Fraud: Beware of Swindlers Who Claim Loyalty to Your Group

The Kentucky securities regulator is warning investors to be on guard against a rise in affinity group fraud. What is affinity fraud? It is simple, but the causes that give rise to it are often more complex.

Everyone, in some way or another, is connected to a group or association. Our interests, backgrounds, and other factors will naturally lead us to those organizations or affiliations that serve our needs. Race, culture, and religious beliefs also play a role in identifying us as members of unique groups that we often come to trust -- sometimes to our detriment.

In a world of increasing complexity, many people feel the need for a short-hand way of knowing who to trust. This is especially true when it comes to investing money. Unfamiliar with how our financial markets work, too many people do not know how to thoroughly research an investment and its salesperson. Many fall prey to affinity group fraud in which a con artist claims to be a member of the same ethnic, religious, career, or community-based group.

"You can trust me," says the con artist, "because I am like you — we share the same background and interests— and I can help you make money."

Another equally effective pitch, if the con artist is not a member of the group, is to lull members into a misplaced trust by selling first to a few prominent members,

then pitching the scam to the rest by using the names of those previously sold. The effect is the same: Once the connection to the group is understood, the natural skepticism of the individual member is overcome, and one more group name is added to the sales column.

Once a victim realizes that he or she has been scammed, too often the response is not to notify the authorities but instead to try to solve problems within the group. Swindlers who prey on minority groups play the loyalty angle for all its worth.

With immigration at levels not seen since early this century, many new arrivals to our country are seen by financial swindlers as ripe for the picking. Immigrant groups are particularly vulnerable to this type of fraud because they are sometimes isolated from the larger community and their flow of information may be limited because of language and other barriers.

Members of other long-established minority groups who have accumulated savings and achieved a certain standard of living often want to "give back" to the community in order to help others like themselves. However, such inclinations often make these group members sitting ducks for deceitful con artists who, despite sharing the same ethnicity or culture, are really motivated solely by greed.

Religious affinity group fraud also continues to be a widespread problem, according to state securities regulators. Swindlers who prey upon people of their own religion come in all denominations.

How to Avoid Affinity Group Fraud...

Beware of the use of names or testimonials from other group members. Scam artists frequently pay out high returns to early investors using money from later arrivals. Accordingly, early investors may be wildly enthusiastic about a scheme that may collapse entirely once you have invested.

Obtain a prospectus or other form of written information that details the risks in the investment and procedures to get your money out.

Ask for professional advice from a neutral outside expert not in your group -- an accountant, attorney or financial planner -- to evaluate the investment.

Before investing any money, call the Office of Financial Institutions, Division of Securities at (800) 223-2579 in order to learn more about the salesperson and firm. The simplest inquiry is to ask if they are registered to do business in your state and is the investment allowed to be sold. If the investment product or the salesperson is not registered, that is a sure warning to inquire further.

*Don't take the word of a salesperson!
Check out the investment yourself.*

THREE QUESTIONS INVESTORS SHOULD ASK THEMSELVES...

Before you invest, take time to think about your overall financial situation and investment goals. You are not ready to invest until you have carefully considered these basic questions, for which every informed investor should know the answers:

Do you have money to invest?

What are your investment goals?

How much risk are you comfortable with?



**DON'T LET YOUR MONEY GO
DOWN THE DRAIN.
INVESTIGATE BEFORE YOU
INVEST.**

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